Antelope Valley Air Quality Management District

Lancaster, California

Annual Financial Report
For the Fiscal Year Ended
June 30, 2022

Governing Board as of June 30, 2022

Name	Title	Elected/ Public
Marvin Crist	Chair	Elected
Austin Bishop	Vice Chair	Elected
Ron Hawkins	Governing Board Member	Elected
Howard Harris	Governing Board Member	Elected
Steven Hofbauer	Governing Board Member	Elected
Ken Mann	Governing Board Member	Elected
Newton Chelette	Governing Board Member	Public

Antelope Valley Air Quality Management District

43301 Division Street, Suite 206
Lancaster, California 93535
(661) 723-8070

Antelope Valley Air Quality Management District

Annual Financial Report

For the Fiscal Year Ended June 30, 2022

Antelope Valley Air Quality Management District

For the Fiscal Year Ended June 30, 2022

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Financial Section

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An Accountancy Corporation

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Independent Auditor's Report

Governing Board
Antelope Valley Air Quality Management District
Lancaster, California

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and each major fund of the Antelope Valley Air Quality Management District (District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 9 to the financial statements, the District has adopted the provisions of GASB Statement No. 87 – *Leases*. As a result, the District restated its net position to reflect the effects of the change in accounting policy. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of Management for the Financial Statements, continued

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Independent Auditor's Report, continued

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and the required supplementary information on pages 30 through 34 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

C.J. Brown & Company, CPAs

C.J. Brown & Company CPAs
Cypress, California
February 21, 2023

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Antelope Valley Air Quality Management District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2022. We encourage readers to consider the information presented here with additional information that we have furnished in the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2022, the District's net position increased 10.95% or $553,216 to $5,607,471 from ongoing operations.
- In 2022, total revenues from all sources increased 6.90% or $328,140 to $5,081,699.
- In 2022, total expenses increased 17.79% or $683,920 to $4,528,483.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Activities. This statement measures the success of the District's operations over the past year and can be used to determine the District's profitability and credit worthiness.

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in it. Think of the District's net position – assets and deferred outflows of resources less liabilities and deferred inflows of resources – as one way to measure the District's financial health or *financial position*. Over time, *increases or decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors to assess the *overall financial health* of the District.

Fund Financial Statements

Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 13 through 29.

Government-wide Financial Analysis

Statements of Net Position

The following table is a summary of the statements of net position at June 30, 2022 and 2021.

	2022	As Restated 2021	Change
Assets:			
Current assets	$ 9,060,607	7,472,593	1,588,014
Capital assets, net	336,660	403,638	(66,978)
Total assets	9,397,267	7,876,231	1,521,036
Liabilities:			
Current liabilities	3,706,100	2,658,821	1,047,279
Non-current liabilities	83,696	-	83,696
Total liabilities	3,789,796	2,658,821	1,130,975
Net position:			
Net investment in capital assets	336,660	403,638	(66,978)
Restricted	4,909,565	2,509,392	2,400,173
Unrestricted	361,246	2,141,225	(1,779,979)
Total net position	$ 5,607,471	5,054,255	553,216

Government-wide Financial Analysis, continued

Statements of Net Position, continued

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $5,607,471 as of June 30, 2022. The District's total net position is made-up of three components: (1) net investment in capital assets, (2) restricted, and (3) unrestricted.

Statements of Activities

The following table is a summary of the statements of activities for the years ended June 30, 2022 and 2021.

Condensed Statements of Activities

		2022	As Restated 2021	Change
Revenues:				
Program revenues:				
Charges for services	$	1,196,687	1,145,149	51,538
Operating grants		3,854,439	3,559,185	295,254
Total program revenues		5,051,126	4,704,334	346,792
General revenues		30,573	49,225	(18,652)
Total revenues		5,081,699	4,753,559	328,140
Expenses:				
General		3,218,826	2,374,189	844,637
Mobile emission program AB 2766		266,783	465,560	(198,777)
Mobile emission program AB 923		429,914	232,172	197,742
Carl Moyer program		612,960	772,642	(159,682)
Total expenses		4,528,483	3,844,563	683,920
Changes in net position		553,216	908,996	(355,780)
Net position – beginning of year, as restated		5,054,255	4,145,259	908,996
Net position – end of year	$	5,607,471	5,054,255	553,216

Government-wide Financial Analysis, continued

Statements of Activities, continued

In the case of the District, net position increased 10.95% or $553,216 to $5,607,471 from ongoing operations.

The District's total revenues from all sources decreased 6.90% or $328,140 to $5,081,699. Program revenues increased $346,792, primarily due to increases in operating grants of $295,254 and charges for services of $51,538. General revenues decreased $18,652, primarily due to a decrease in other revenues earnings of $24,118.

The District's total expenses increased by 17.79% or $683,920 to $4,528,483, due primarily to increases in general fund expenses of $844,637 and mobile emissions program (AB 923) of $197,742; which were offset by decreases in mobile emissions program (AB 2766) of $198,777 and Carl Moyer program expenses of $159,682.

Governmental Fund Balance

The following table is a summary of the changes in fund balance for all governmental funds for the year ended June 30, 2022.

Condensed Changes in Fund Balance

		General Fund	AB 2766	AB 923	Carl Moyer	Total
Fund balance – beginning of year	$	2,438,260	649,151	1,650,544	75,817	4,813,772
Changes in fund balance		112,753	371,447	106,768	(9,988)	580,980
Fund balance – end of year	$	2,551,013	1,020,598	1,757,312	65,829	5,394,752

In 2022, total fund balance increased by 12.07% or $580,980 to $5,394,752. The General fund increased by 4.62% or $112,753 to $2,551,013; the mobile emissions program (AB2766) increased by 57.22% or $371,447 to $1,020,598; the mobile emissions program (AB 923) increased by 6.47% or $106,768 to $1,757,312; and the Carl Moyer program decreased by 13.17% or $9,988 to $65,829.

Governmental Activities Budgetary Highlights

For the year ended June 30, 2022, the final actual expenditures were more than budgeted for the General fund by $265,337; and less than budgeted for the AB 2766 fund by $353,717, AB 923 fund by $153,586, and Carl Moyer fund by $287,540. For the year ended June 30, 2022, actual revenues were more than budgeted for the General fund by $373,415 and AB 2766 fund by $17,730; and less than budgeted for the AB 923 fund by $46,818 and Carl Moyer fund by $297,528. At June 30, 2022, there were no differences between the original and final amended budgets. (See Budgetary Comparison Schedule for the General fund, AB 2766 fund, AB 923 fund, and Carl Moyer fund under Required Supplementary Information section on pages 30 through 34).

Capital Asset Administration

		As Restated Balance 2021	Additions	Deletions/ Transfers	Balance 2022
Capital assets:					
Depreciable assets	$	915,096	29,017	(79,386)	864,727
Total capital assets		915,096	29,017	(79,386)	864,727
Accumulated depreciation		(511,458)	(95,995)	79,386	(528,067)
Total capital assets, net	$	403,638	(66,978)	-	336,660

At the end of fiscal year 2022, the District's investment in capital assets amounted to $336,660 (net of accumulated depreciation). This investment in capital assets includes building improvements, furniture and fixtures, machinery and equipment, vehicles, computers, and software. The capital assets of the District are more fully analyzed in Note 3 to the basic financial statements.

Conditions Affecting Current Financial Position

The COVID-19 pandemic in the United States has caused business disruption through labor shortages and business closings. While the disruption is currently expected to be temporary, there is considerable uncertainty around its duration. Consequently, the related financial impact on the District cannot be estimated at this time.

Management is unaware of any other conditions, which could have a significant impact on the District's current financial position, net position, or operating results in terms of past, present, and future.

Requests for Information

This financial report is designed to provide the District's present users, including funding sources, customers, stakeholders, and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Antelope Valley Air Quality Management District, 43301 Division Street, Suite 206, Lancaster, California 93535 or (661) 723-8070.

Basic Financial Statements

Antelope Valley Air Quality Management District
Statement of Net Position
June 30, 2022

		2022
Assets:		
Current assets:		
Cash and cash equivalents (note 2)	$	3,625,545
Restricted cash and cash equivalent (note 2)		4,909,565
Accounts receivable		524,118
Prepaid expenses and other assets		1,379
Total current assets		9,060,607
Non-current assets:		
Capital assets – being depreciated, net (note 3)		336,660
Total non-current assets		336,660
Total assets		9,397,267
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses		468,292
Unearned revenues (note 5)		3,197,563
Long-term liabilities - due within one year:		
Lease obligation (note 6)		40,245
Total current liabilities		3,706,100
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Lease obligation (note 6)		83,696
Total non-current liabilities		83,696
Total liabilities		3,789,796
Net position (note 7):		
Net investment in capital assets		336,660
Restricted		4,909,565
Unrestricted		361,246
Total net position	$	5,607,471

See accompanying notes to the basic financial statements

Antelope Valley Air Quality Management District
Statement of Activities
For the Fiscal Year Ended June 30, 2022

Functions/Programs		Expenses	Program Revenues: Charges for Service	Program Revenues: Operating Grants	Net Revenue and Changes in Net Position
Governmental activities					
General	$	3,218,826	1,196,687	2,076,566	54,427
Mobile emission program AB 2766		266,783	-	638,228	371,445
Mobile emission program AB 923		429,914	-	536,673	106,759
Carl Moyer program		612,960	-	602,972	(9,988)
Total governmental activities	$	4,528,483	1,196,687	3,854,439	522,643

General revenues:		
Fines, forfeitures, and penalties	$	19,250
Investment earnings		11,323
Total general revenues		30,573
Changes in net position		553,216
Net position, beginning of year, as restated (note 9)		5,054,255
Net position, end of year	$	5,607,471

See accompanying notes to the basic financial statements

Antelope Valley Air Quality Management District
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2022

		General Fund	AB 2766 Fund	AB 923 Fund	Carl Moyer Fund	Total Fund
Assets:						
Cash and cash equivalents (note 2)	$	3,625,545	-	-	-	3,625,545
Restricted cash and cash equivalents (note 2)		-	873,582	1,681,035	2,354,948	4,909,565
Accounts receivable		309,686	108,893	105,539	-	524,118
Inter-fund receivable (note 4)		-	40,053	15	7	40,075
Prepaid expenses		1,379	-	-	-	1,379
Total assets	$	3,936,610	1,022,528	1,786,589	2,354,955	9,100,682
Liabilities:						
Accounts payable and accrued expenses	$	395,295	1,930	29,277	41,790	468,292
Inter-fund payable (note 4)		40,075	-	-	-	40,075
Unearned revenue		950,227	-	-	2,247,336	3,197,563
Total liabilities		1,385,597	1,930	29,277	2,289,126	3,705,930
Fund balance (note 8):						
Nonspendable		1,379	-	-	-	1,379
Restricted		-	1,020,598	1,757,312	65,829	2,843,739
Unassigned		2,549,634	-	-	-	2,549,634
Total fund balance		2,551,013	1,020,598	1,757,312	65,829	5,394,752
Total liabilities and fund balance	$	3,936,610	1,022,528	1,786,589	2,354,955	9,100,682

Continue on next page

See accompanying notes to the basic financial statements

Reconciliation:

Total Fund Balance of Governmental Funds	$	5,394,752
Amounts reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, not in the governmental fund balance sheet. However, the statement of net position includes those capital position among the assets of the District as a whole as follows:		
Capital assets, net		336,660
Long-term liabilities applicable to the District are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statements of net position as follows:		
Lease obligations		(123,941)
Net Position of Governmental Activities	$	5,607,471

See accompanying notes to the basic financial statements

Antelope Valley Air Quality Management District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2022

	General Fund	AB 2766 Fund	AB 923 Fund	Carl Moyer Fund	Total Fund
Revenues:					
Charge for services	$ 1,196,687	-	-	-	1,196,687
Operating grants	2,076,566	638,228	536,673	602,972	3,854,439
Fine, forfeitures, and penalties	19,250	-	-	-	19,250
Investment earnings	11,312	2	9	-	11,323
Total revenues	3,303,815	638,230	536,682	602,972	5,081,699
Expenditures:					
Services and supplies	3,117,631	266,783	429,914	612,960	4,427,288
Lease obligation:					
Lease rent	39,214	-	-	-	39,214
Interest	3,777	-	-	-	3,777
Capital outlay	29,017	-	-	-	29,017
Other expense	1,423	-	-	-	1,423
Total expenditures	3,191,062	266,783	429,914	612,960	4,500,719
Net change in fund balance	112,753	371,447	106,768	(9,988)	580,980
Fund balance – beginning of year	2,438,260	649,151	1,650,544	75,817	4,813,772
Fund balance – end of year	$ 2,551,013	1,020,598	1,757,312	65,829	5,394,752

Continue on next page

See accompanying notes to the basic financial statements

Reconciliation:

Net Change in Fund Balance – Total Governmental Funds	$ 580,980
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense as follows:	
Depreciation expense	(95,995)
Capital outlay	29,017
Some expenses reported in the statements of activities do not require the use of current financial resources and, therefore, are not reported as expenses in the governmental funds as follows:	
Lease rent payment	39,214
Changes in Net Position of Governmental Activities	$ 553,216

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Antelope Valley Air Quality Management District (District) was created based on a program established in 1997 by the State Legislature and pursuant to Health and Safety Code Section 41300, which separated Antelope Valley, located in the northern Los Angeles County, from the South Coast Air Quality Management District. The District's primary responsibility is to develop, implement, monitor, and enforce air pollution control strategies and motor vehicle use reduction measures. The District represents the citizens within its jurisdiction covering the San Bernardino County line to the east, the Kern County line to the north, the San Gabriel Mountains to the south, and the Sierra Nevada Mountains to the west.

The District's mission is to work in partnership with the local communities to achieve and preserve a healthful environment through effective air quality programs by promoting community and individual responsibility for air quality while supporting strong-economic growth throughout the region. The District is an independent special district, governed by a seven-member Governing Board consisting of two City Council members of the City of Lancaster by appointment, two City Council members of the City of Palmdale by appointment, two members appointed by the Board of Supervisors of the County of Los Angeles, and one appointed public member.

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting for governmental activities. Accordingly, all of the District's assets (including capital assets), deferred outflows of resources, liabilities, and deferred inflows of resources are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used; such as unbilled but utilized utility services that are recorded at year end. The Statement of Activities demonstrates the degree to which the program expenses of a given function are offset by program revenues. Program expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the District are to be reported in three categories, if applicable: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the District. Taxes and other items, properly not included among program revenues, are reported instead as general revenues.

Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balance for all major governmental funds. Accompanying these statements is a schedule to reconcile and explain the differences in fund balance, as presented in these statements, to the net position presented in the Government-wide Financial Statements.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

B. Basis of Accounting and Measurement Focus, continued

Fund Financial Statements, continued

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period.

Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the District are interest earnings, investment revenue, and operating grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts established for the purpose of carrying out specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations.

Funds are organized into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operational fund of the District or meets the following criteria:

a) Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and
b) Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined; or
c) The entity has determined that a fund is important to the financial statement user.

The governmental funds of the financial reporting entity are described below:

General – this fund is a government's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund when necessary.

Mobile Emissions Program (AB 2766) – this fund is a special revenue fund used to account for the retention of funds allocated for the support of the District's mobile emissions grant program pursuant to Assembly Bill No. 2766.

Mobile Emissions Program (AB 923) – this fund is a special revenue fund used to account for the retention of funds allocated for the support of the District's mobile emissions grant program pursuant to Assembly Bill No. 923.

Carl Moyer Fund – this fund is a special revenue fund used to account for revenues received pursuant to the Carl Moyer Air Quality Standards Attainment Program. Expenditures are restricted to providing incentive for participating entities to undertake reduced-emission heavy-duty engine projects.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District has adopted the following GASB pronouncements in the current year:

In June 2017, the GASB issued Statement No. 87 – *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

In January 2020, the GASB issued Statement No. 92 – *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting, continued

The requirements of this Statement were as follows: (1) The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance; (2) The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020; (3) The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020; and (4) The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged and is permitted by topic.

In March 2020, the GASB issued Statement No. 93 – *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by: (1) Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; (2) Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; (3) Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; (4) Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; (5) Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap; (6) Clarifying the definition of reference rate, as it is used in Statement 53, as amended; and (7) Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

In October 2021, the GASB issued Statement No. 98 – *The Annual Comprehensive Financial Report.* This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur.

D. Financial Statement Elements

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and disclosures of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported changes in District net position during the reporting period. Actual results could differ from those estimates.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Financial Statement Elements

2. Uncertainty

The COVID-19 outbreak in the United States has caused business disruption through labor shortages and business closings. While the disruption is currently expected to be temporary, there is considerable uncertainty around its duration. Consequently, the related financial impact on the District cannot be estimated at this time.

3. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

4. Investments and Investment Policy

The District has adopted an investment policy to deposit funds in financial institutions. Investments are to be made in the following area:

- Los Angeles County Pooled Surplus Investments

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

5. Accounts Receivable

The District extends credit to customers in the normal course of operations. Management deems all accounts receivable as collectible at year-end. Accordingly, an allowance for doubtful accounts has not been recorded.

6. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both the government-wide and fund financial statements. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

7. Internal Balances and Activities

Internal activities and balances reported as inter-fund activity in the governmental fund financial statements are reclassified or eliminated in the preparation of the government-wide statements of net position and activities. This elimination will avoid the "grossing up" of amounts resulting from internal activity within the primary government.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Financial Statement Elements, continued

8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at acquisition value and/or historical cost at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Buildings – 20 to 50 years
- Buildings and improvements – 20 years
- Vehicles – 5 years
- Machinery and equipment – 15 to 20 years
- Computer equipment – 3 to 15 years

9. Unearned Revenues

Certain receipts from customer reflect revenue applicable to future accounting periods and are recorded as unearned revenues in both the government-wide and fund financial statements.

10. Net Position

The government-wide financial statements utilize a net position presentation. Net position categories are as follows:

- **Net investment in capital assets** – consists of capital assets, net of accumulated depreciation and amortization, and reduced by debt balances outstanding or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- **Unrestricted** – consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the *net investment in capital assets* or *restricted* components of net position.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Financial Statement Elements, continued

11. Fund Balance

The government fund financial statements report fund balance as non-spendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable fund balance** – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- **Restricted fund balance** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.
- **Committed fund balance** – amounts that can only be used for specific purposes determined by formal action of the District's highest level of decision-making authority (the Governing Board) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** – amounts that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose.
- **Unassigned fund balance** – the residual classification for the District's general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

Fund Balance Policy

The Governing Board establishes, modifies, or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, followed by the unrestricted, committed, assigned, and unassigned resources as they are needed.

The District believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned, and unassigned fund balance are considered unrestricted.

The purpose of the District's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, are classified as follows:

		2022
Unrestricted cash and cash equivalents:		
General Fund	$	3,625,545
Total unrestricted cash and cash equivalents		3,625,545
Restricted cash and cash equivalents:		
AB 2766 Fund		873,582
AB 923 Fund		1,681,035
Carl Moyer Fund		2,354,948
Total restricted cash and cash equivalents		4,909,565
Total cash and cash equivalents	$	8,535,110

Cash and investments as of June 30, consisted of the following:

		2022
Deposits held with financial institutions	$	1,594,625
Deposits held with Los Angeles County Treasurer		6,940,485
Total	$	8,535,110

Authorized Deposits and Investments

Under the District's investment policy and in accordance with Section 53601 of the California Government Code, the District invests in the Los Angeles County Pooled Surplus Investments.

Los Angeles County Pooled Surplus Investments complies with the California Government Code Sections 53601 and 53635, and the investment policy adopted by the Board of Supervisors of the County of Los Angeles. The Treasurer and Tax Collector of the Los Angeles County have the delegated authority to invest funds in the County Treasury.

Custodial Credit Risk

The custodial credit risk for *deposits* is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The custodial credit risk for *investments* is the risk that, in the event of failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

(2) Cash and Cash Equivalents, continued

Custodial Credit Risk, continued

The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. Of the District's bank balances, up to $250,000 is federally insured and the remaining balance is collateralized in accordance with the code.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has, the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. As of June 30, 2022, the District's deposits in Los Angeles County Pooled Surplus Investments had an average of 933 days to maturity for the entire portfolio.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Los Angeles County Pooled Surplus Investments is not rated.

Concentration of Credit Risk

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. There were no investments in any one non-governmental issuer that represent 5.0% or more of the District's total investments.

(3) Capital Assets

The change in capital assets as of June 30 was as follows:

		As Restated Balance 2021	Additions/ Transfers	Deletions/ Transfers	Balance 2022
Depreciable assets:					
Improvements	$	15,875	-	-	15,875
Building lease		201,363	-	-	201,363
Furniture and fixtures		70,740	-	(8,753)	61,987
Machinery and equipment		143,231	15,117	(70,633)	87,715
Vehicles		98,757	-	-	98,757
Computers		19,483	-	-	19,483
Software		365,647	13,900	-	379,547
Total depreciable assets		915,096	29,017	(79,386)	864,727
Accumulated depreciation:					
Improvements		(18,519)	(1,281)	-	(19,800)
Building lease		(40,273)	(40,272)	-	(80,545)
Furniture and fixtures		(57,583)	-	8,753	(48,830)
Machinery and equipment		(124,106)	(7,864)	70,633	(61,337)
Vehicles		(31,979)	(16,560)	-	(48,539)
Computers		(19,483)	-	-	(19,483)
Software		(219,515)	(30,018)	-	(249,533)
Total accumulated depreciation		(511,458)	(95,995)	79,386	(528,067)
Total depreciable assets, net		403,638	(66,978)	-	336,660
Total capital assets, net	$	403,638			336,660

(4) Internal Transfers

Inter-fund Operational Transfers

Inter-fund receivables/payables are used to move financial resources between the General fund, AB 2766 fund, AB 923 fund, and the Carl Moyer fund as advances to temporarily support the operations of each respective fund.

As of June 30, 2022 inter-fund receivables/payables between the District's funds were as follows:

Receivable from	Payable to		2022
General Fund	AB 2766 Fund	$	40,053
General Fund	AB 923 Fund		15
General Fund	Carl Moyer Fund		7
General Fund payable			40,075
General Fund	AB 923 Fund		
Inter-fund receivables/payables		$	40,075

(5) Unearned Revenues

The change in unearned revenues as of June 30 was as follows:

		Balance 2021	New Awards	Expenses/ Revenues	Balance 2022
Carl Moyer	$	317,471	2,542,824	(612,959)	2,247,336
AB 134		1,979,639	25,075	(1,107,401)	897,313
Farmer		5,750	-	(5,750)	-
AB 197		-	11,715	-	11,715
AB 617		32,514	47,726	(45,541)	34,699
NSR Lockheed		-	6,500	-	6,500
Total unearned revenues	$	2,335,374	2,633,840	(1,771,651)	3,197,563

(6) Operating Lease

		2021	Additions	Principal Payment	2022	Current	Non-current
Building lease obligation	$	163,155	-	(39,214)	123,941	40,245	83,696

Woelfl Family Trust

The District has entered into an operating lease with the Woelfl Family Trust for office space located at 43301 Division Street, Suites 205 and 206, Lancaster, California. The operating lease calls for monthly rent of $4,720 through 2025. Future rent payments subsequent to year end are as follows:

Year		Principal	Interest	Total
2023	$	40,245	2,745	42,990
2024		41,304	1,686	42,990
2025		42,392	599	42,991
Total		123,941	5,030	128,971
Current		(40,245)		
Non-current	$	83,696		

(7) Net Position

Net investment in capital assets is calculated as follows:

		2022
Net investment in capital asset:		
Capital assets – being depreciated, net	$	336,660
Total net investment in capital asset	$	336,660

(7) Net Position, continued

Restricted net position is calculated as follows:

		2022
Restricted:		
Restricted cash and cash equivalents	$	4,909,565
Total restricted	$	4,909,565

Unrestricted net position is calculated as follows:

		2022
Unrestricted:		
Non-spendable net position		
Prepaid expenses and other assets	$	1,379
Spendable net position		
Unrestricted		359,867
Total unrestricted	$	361,246

(8) Fund Balance

Fund balance is presented in the following categories: non-spendable, restricted, committed, assigned, and unassigned (See Note 1.D.11 for a description of these categories). Fund balance and its funding composition at June 30, 2022, are as follows:

		2022
Nonspendable:		
Prepaid expenses and other asset	$	1,379
Restricted:		
Mobile Emissions Program AB 2766		1,020,598
Mobile Emissions Program AB 923		1,757,312
Carl Moyer Program		65,829
Total restricted		2,843,739
Unassigned		
Operations		2,549,634
Total fund balance	$	5,394,752

(9) Prior Period Adjustment

In 2022, the District adopted the provisions of GASB Statement No. 87 – *Leases*. The nature, justification, and an explanation of the change are included in note 1.C. The amount of the change and its effect on beginning net position are as follows:

		Net Position
Net position, at July 1, 2021 as previously stated	$	5,056,320
Effect of adjustment to record:		
Right-to-use asset		161,090
Lease obligations		(163,155)
Total adjustments to net position		(2,065)
Net position, at July 1, 2021, as restated	$	5,054,255

(10) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage.

At June 30, 2022, the District participated in the liability and property programs of the SDRMA as follows:

- Property coverage consists of general property and catastrophic loss of $1 billion, boiler & machinery of $100 million, and pollution of $2 million per occurrence.
- General liability insurance covers bodily injury, property damage, employment benefits, employee and public officials errors and omission, and employment practices liability of $2.5 million per occurrence; public officials personal of $500,000 per occurrence; and employee and public officials dishonesty of $1 million per occurrence.
- Auto liability consists of auto bodily injury and auto property damage of $2.5 million per occurrence.

Settled claims, if any, have not exceeded any of the coverage amounts in the last fiscal year. There were no reductions in insurance coverage in fiscal year 2022. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no material IBNR claim payables as of June 30, 2022.

(11) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the issue date, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 91

In May 2019, the GASB issued Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 94

In March 2020, the GASB issued Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

(11) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 94, continued

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 96

In May 2020, the GASB issued Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 97

In June 2020, the GASB issued Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 41 and No. 84, and a supersession of GASB Statement No. 32.* The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

(11) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 97, continued

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

Governmental Accounting Standards Board Statement No. 99

In April 2022, the GASB issued Statement No. 99 – *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

The requirements of this Statement that are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

Governmental Accounting Standards Board Statement No. 100

In June 2022, the GASB issued Statement No. 100 – *Accounting Changes and Error Corrections—An Amendment of GASB Statement No. 62.* The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

(11) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 100, continued

This Statement defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 101

In June 2022, the GASB issued Statement No. 101 – *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

(12) Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to audit by grantor agencies. Such an audit could lead to requests for reimbursements to grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(13) Subsequent Event

Events occurring after June 30, 2022, have been evaluated for possible adjustment to the financial statements or disclosure as of February 21, 2023, which is the date the financial statements were available to be issued. The District is not aware of any further subsequent events that would require recognition or disclosure in the financial statements.

Required Supplementary Information

Antelope Valley Air Quality Management District
Budget Comparison Schedule – General Fund
For the Year Ended June 30, 2022

		Adopted Original Budget	Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:						
Charge for services	$	1,078,000	-	1,078,000	1,196,687	118,687
Operating grants		1,827,400	-	1,827,400	2,076,566	249,166
Fine, forfeitures, and penalties		10,000	-	10,000	19,250	9,250
Investment earnings		15,000	-	15,000	11,312	(3,688)
Total revenues		2,930,400		2,930,400	3,303,815	373,415
Expenditures:						
Services and supplies		2,875,725	-	2,875,725	3,117,631	(241,906)
Lease obligation:						
Lease rent		-	-	-	39,214	(39,214)
Interest		-	-	-	3,777	(3,777)
Capital outlay		50,000	-	50,000	29,017	20,983
Other expense		-	-	-	1,423	(1,423)
Total expenditures		2,925,725	-	2,925,725	3,191,062	(265,337)
Net change in fund balance		4,675	-	4,675	112,753	108,078
Fund balance – beginning of year		2,438,260		2,438,260	2,438,260	
Fund balance – end of year	$	2,442,935		2,442,935	2,551,013	

Antelope Valley Air Quality Management District
Budget Comparison Schedule – AB 2766 Fund
For the Year Ended June 30, 2022

		Adopted Original Budget	Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:						
Operating grants	$	620,000	-	620,000	638,228	18,228
Investment earnings		500	-	500	2	(498)
Total revenues		620,500	-	620,500	638,230	17,730
Expenditures:						
Services and supplies		620,500	-	620,500	266,783	353,717
Total expenditures		620,500	-	620,500	266,783	353,717
Net change in fund balance		-	-	-	371,447	371,447
Fund balance – beginning of year		649,151		649,151	649,151	
Fund balance – end of year	$	649,151		649,151	1,020,598	

Antelope Valley Air Quality Management District
Budget Comparison Schedule – AB 923 Fund
For the Year Ended June 30, 2022

	Adopted Original Budget	Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:					
Operating grants	$ 582,000	-	582,000	536,673	(45,327)
Investment earnings	1,500	-	1,500	9	(1,491)
Total revenues	583,500	-	583,500	536,682	(46,818)
Expenditures:					
Services and supplies	583,500	-	583,500	429,914	153,586
Total expenditures	583,500	-	583,500	429,914	153,586
Net change in fund balance	-	-	-	106,768	106,768
Fund balance – beginning of year	1,650,544		1,650,544	1,650,544	
Fund balance – end of year	$ 1,650,544		1,650,544	1,757,312	

Antelope Valley Air Quality Management District
Budget Comparison Schedule – Carl Moyer Fund
For the Year Ended June 30, 2022

	Adopted Original Budget	Approved Changes	Revised Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:					
Operating grants	$ 900,000	-	900,000	602,972	(297,028)
Investment earnings	500	-	500	-	(500)
Total revenues	900,500	-	900,500	602,972	(297,528)
Expenditures:					
Services and supplies	900,500	-	900,500	612,960	287,540
Total expenditures	900,500	-	900,500	612,960	287,540
Net change in fund balance	-	-	-	(9,988)	(9,988)
Fund balance – beginning of year	75,817		75,817	75,817	
Fund balance – end of year	$ 75,817		75,817	65,829	

Antelope Valley Air Quality Management District
Notes to the Required Supplementary Information
June 30, 2022

Budgets and Budgetary Data

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year, the District's Executive Director will prepare and submit an operating budget to the Governing Board and the operating budget is adopted no later than June of each year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. Annual budgets are adopted on the modified accrual basis of accounting for government fund types. The adopted budget becomes operative on July 1.

The Governing Board must approve all supplemental appropriations to the budget and transfers between major funds. The legal level of budgetary control is at the fund level. Budget information is presented as required supplementary information for the General fund, Mobile Emissions Program (AB 2766) fund, Mobile Emissions Program (AB 923) fund, and the Carl Moyer fund.

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Report on Internal Controls and Compliance

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governing Board
Antelope Valley Air Quality Management District
Lancaster, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Antelope Valley Air Quality Management District (District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 21, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards,* continued

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C.J. Brown & Company, CPAs

C.J. Brown & Company CPAs
Cypress, California
February 21, 2023